

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15

USIA-15 AID-05 IGA-01 ABF-01 EB-07 MC-02 ACDA-10

OMB-01 COME-00 TRSE-00 AGR-10 PC-05 IO-10 /117 W
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P 271700Z FEB 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 5800

UNCLAS SECTION 1 OF 2 LA PAZ 1427/1

E.O. 11652: N/A

TAGS: PFOR, MASS, BL

SUBJ: GAO REPORT ON BOLIVIA

REF: LA PAZ 0871, STATE 027989

1. THE COUNTRY TEAM HAS REVIEWED THE GAO REPORT ON BOLIVIA AND SUBMITS ITS COMMENTS FOR THE DEPARTMENT'S USE IN RESPONDING TO CONGRESS. SINCE THE GAO TEAM'S VISIT TO BOLIVIA IN 1973, SIGNIFICANT ECONOMIC PROGRESS HAS BEEN MADE THAT CAN BE DIRECTLY OR INDIRECTLY ATTRIBUTABLE TO U.S. ASSISTANCE EXTENDED IN THE YEARS FOLLOWING THE AUGUST 1971 REVOLUTION. THE BANZER REGIME HAS BECOME MORE TECHNICALLY COMPETENT AND HAS IMPORVED ITS PLANNING AND COORDINATION EFFORTS.

2. COUNTRY TEAM COMMENTS ARE RELATED TO THE RECOMMENDATIONS WHICH APPEAR ON PAGES (III) AND (IV) OF THE REPORT.

3. CONDITIONING FUTURE U.S. ASSISTANCE LEVELS AND FUND RELEASE ON SECTORAL AND PROJECT LOANS TO SPECIFIC MEASURABLE NATIONAL DEVELOPMENT PLANNING AND SELF-HELP EFFORTS WE THINK THE BOLIVIAN GOVERNMENT SHOULD TAKE TO INCREASE NATIONAL ECONOMIC GROWTH AS RECOMMENDED BY THE REPORT IS UNNECESSARY AND UNDESIREABLE.

AID PROGRAMS ARE DESIGNED TO BENEFIT THE RURAL POOR AND DEPRIVED
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THROUGH IMPROVEMENT IN AGRICULTURE, EDUCATION AND HEALTH.

SECTORAL PROGRAMS ARE BASED ON THE GOB'S (NOT ONLY THE AFFECTED MINISTRY BUT ALSO THE FINANCE AND PLANNING MINISTRIES) PRIORITIES AND ITS COMMITMENT TO CARRY OUT SUPPORTIVE ACTIONS REQUIRED FOR SUCCESSFUL IMPLEMENTATION. UNDER THE CURRENT PROCEDURE GOB'S PERFORMANCE ON ITS COMMITMENTS ARE MONITORED AND PRIOR TO INITIATING NEW PROJECTS OF THE SECTORAL PROGRAM OVERALL PERFORMANCE IS EVALUATED. TO MAKE OUR ASSISTANCE AVAILABLE ONLY IN INCREMENTS BASED ON BOLIVIAN PERFORMANCE IN TAKING NEEDED DEVELOPMENT MEASURES AT THE NATIONAL LEVEL UNRELATED TO SECTORS AIDED BY THE USG WOULD UNDERMINE OUR PROGRAMS AND COULD JEOPARDIZE THE ACHIEVEMENT OF NOT ONLY THE ECONOMIC DEVELOPMENT OBJECTIVES, BUT ALSO OUR POLITICAL OBJECTIVES. IT SHOULD BE NOTED FOR THE RECORD THAT THE GOB DID TAKE VARIOUS MEASURES TO IMPROVE ITS ECONOMIC SITUATION ALMOST IMMEDIATELY AFTER A \$20 M LOAN WAS SIGNED IN 1972. THESE MEASURES INCLUDED DEVALUATION OF THE PESO, ESTABLISHMENT OF A SERIES OF TAXES AND A WAGE ADJUSTMENT WITH STRONG INCOME DISTRIBUTION EFFECTS. MOREOVER, ECONOMIC GROWTH HAS BEEN GOOD OVER THE PAST THREE YEARS (1972-1974), AVERAGING SIX TO SEVEN PERCENT IN REAL TERMS.

4. THE FOLLOWING POSITIVE STEPS HAVE BEEN TAKEN WITH OTHER EXTERNAL DONORS TO INSURE THAT COORDINATION MEASURES FOR BOLIVIAN DEVELOPMENT PROGRAMS ARE EFFECTIVELY IMPLEMENTED:

A. RESIDENT REPRESENTATIVES OF IDB, UNDP, IMF AND AID COLLECTIVELY HAVE MET WITH MINISTER OF COORDINATION TO PROMOTE COOPERATION AND COORDINATION.

B. RESIDENT HEADS AND KEY ADVISORS OF IDB, UNDP, IMF, OAS AND AID HOLD PERIODIC MEETINGS TO DISCUSS RESPECTIVE PROGRAMS.

C. AID EXCHANGES PROGRAM REPORTS AND MATERIALS WITH OTHER DONORS.

D. THE AID MISSION DIRECTOR PARTICIPATES IN JOINT WASHINGTON MEETINGS WITH REPRESENTATIVES OF OTHER DONORS TO BOLIVIA AND HAS ATTENDED CIAP MEETINGS.

E. THE EMBASSY'S ECONOMIC SECTION PERIODICALLY EXCHANGES INFORMATION ON ASSISTANCE PLANS AND PROGRAMS WITH THIRD COUNTRY UNCLASSIFIED

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REPRESENTATIVES.

5. CAREFUL CONSIDERATION WAS GIVEN TO THE USE OF U.S. FUNDS TO FINANCE HOST GOVERNMENT'S LOCAL CONTRIBUTION TO AN ESSENTIALLY EXTERNALLY FINANCED PROJECT. THESE FUNDING ALLOCATIONS WERE MADE FOR THE PURPOSE OF PROVIDING IMMEDIATE FINANCIAL LEVERAGE TO A DETERIORATED ECONOMY IN WHICH INVESTMENT HAD ALMOST COME TO A COMPLETE STOP. THUS A SMALL AMOUNT OF AID GENERATED LOCAL

CURRENCY WAS INSTRUMENTAL IN BRINGING INTO BOLIVIA ADDITIONAL CAPITAL FROM OTHER SOURCES.

6. WHILE THE GOB HAS ACQUIRED A NUMBER OF AIRCRAFT FROM THIRD COUNTRIES IT IS QUESTIONABLE WHETHER THEIR ACQUISITION DIVERTED SCARCE FUNDS AT THE EXPENSE OF ECONOMIC DEVELOPMENT. THE T-6, F-86 AND B-25 AIRCRAFT WERE PRACTICALLY GIFTS. MANY OF THESE PLANES ARE GROUNDED DUE TO LACK OF PARTS WHICH THE GOVERNMENT, FOR SOUND ECONOMIC REASONS, HAS REFUSED TO PURCHASE. THE CANADIAN T-33 AIRCRAFT, WHICH WERE SELECTED OVER U.S. EQUIPMENT ON THE BASIS OF PERFORMANCE, PRICE, AVAILABILITY AND CREDIT TERMS, ARE REGARDED AS VALUABLE ADDITIONS TO THE BOLIVIAN AIR FORCE INVENTORY, MEETING BOTH TRAINING AND TACTICAL MISSION REQUIREMENTS. THE UTILITY AND TRANSPORT AIRCRAFT USED BY THE MILITARY SUPPLEMENT COMMERCIAL CARRIERS AND PLAY A SIGNIFICANT ROLE IN DEVELOPING THE BOLIVIAN ECONOMY BY SERVICE TO LESS ACCESSIBLE, BUT PRO-DUCTIVE AREAS OF THE COUNTRY. THUS FUNDS EXPENDED FOR MILITARY EQUIPMENT ARE CONTRIBUTING TO ECONOMIC DEVELOPMENT ACTIVITIES THAT

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P 271700Z FEB 75

FM AMEMBASSY LA PAZ

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BENEFIT THE NATION. NEIGHBORING COUNTRIES HAVE SUPPLIED SOME MILITARY EQUIPMENT AND LIMITED TRAINING, BUT THERE IS NO EVIDENCE TO SHOW THEY ARE WILLING TO FURNISH ASSISTANCE IN QUANTITIES SUFFICIENT TO MEET BOLIVIA'S NEEDS. CONSEQUENTLY, THE GOB CONTINUES TO SEEK THE MOST FAVORABLE TERMS FOR ITS MILITARY PURCHASES FROM THE U.S. AND OTHER SUPPLIERS. THIS MISSION

MAINTAINS A CONSTANT REVIEW OF ITS MILITARY ASSISTANCE PROGRAMS AND FINDS NO BASIS FOR TERMINATING THE GRANT AID MATERIAL PROGRAM AS SUGGESTED BY THE GAO TEAM.

7. THE POST HAS NO COMMENTS ON THE RECOMMENDATION REGARDING IAGS.

8. IN THIS TELEGRAM WE HAVE CONCENTRATED ON THE RECOMMENDATIONS SECTION OF THE REPORT. WE HAVE COMMENTS ON MANY OF THE POINTS RAISED IN OTHER PARTS OF THE REPORT WHICH WE ARE POUCHING TO ARA/BC. WHILE WE SHARE THE CONCERNS OF THE GAO AUDITORS THAT U.S. ASSISTANCE PROGRAMS BE EFFECTIVE, WE CONCLUDE THAT THE REPORT UNFORTUNATELY IS INCOMPLETE, IN PART MISLEADING AND DOES NOT ADEQUATELY SUPPORT MANY OF ITS CONCLUSIONS.
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